

Unfolding the map Broader global equity opportunities beckon

Heading into year-end, broader equity market leadership remains a key theme, extending beyond technology to a more diverse array of sectors and geographies. At the same time, the tech landscape itself is being reshaped by structural change. These dynamics create potential opportunities and risks.

Key takeaways

- **The U.S. AI investment cycle has shifted from planned capex to financial market absorption.** Investors most likely to be rewarded by the AI trade are those who can distinguish durable, diversified franchises from legacy applications exposed to AI disruption or competitive pressure from leading-edge frontier models. Broader participation across financials, infrastructure and select small- and mid-cap equities suggests the opportunity set is expanding beyond the most obvious AI beneficiaries.
- **In non-U.S. developed markets, we see expanding leadership beyond the technology sector.** European financials are benefiting from a regulatory tailwind, and industrials from electrification and capex trends. Japanese equities also warrant attention amid resilient corporate earnings, improving governance and capital discipline and record buyback activity, which help offset risks from Bank of Japan policy normalization.
- **In emerging markets, dominance by a few AI hardware names, most notably semiconductor makers in Asia, is being tested as materials, energy, health care, financials and consumer discretionary sectors post double-digit gains.** We favor HALO (heavy assets, low obsolescence) investments as a durable complement to concentrated AI exposure, especially regulated utilities and power generation companies positioned to meet surging electricity demand.



Willis Tsai
Head of Global Equities

The Nuveen Equities Investment Council (EIC) includes the firm's senior equity portfolio managers, with an average of three decades of investing experience. The EIC brings global expertise across different equity styles and provides value-added insights to Nuveen's investment process by refining and delivering the firm's collective equity market outlook to clients.

The lay of the land includes wider horizons

In our view, such dispersion is a defining, durable feature of the AI capital cycle, not just a passing phase. AI remains an important structural force, but the investment opportunity is increasingly extending beyond the companies that led the initial infrastructure buildout. This perspective reinforces the case for balancing concentrated AI exposure with regulated utilities and power generators that are benefiting from historic levels of electricity demand. This dynamic also highlights opportunities to participate in broadening market leadership across financials, industrials and infrastructure-adjacent names, as well as select small- and mid-cap companies where valuations remain reasonable and improving fundamentals can create stock-specific opportunities. The broadening theme applies both within and beyond U.S. borders: in Europe, where financials and industrials represent meaningful opportunity; in Japan, bolstered by resilient corporate earnings and increasingly shareholder-friendly company managements; and in EM countries whose markets may have been narrowly, if not exclusively, driven by AI hardware manufacturers but are now finding more space for materials, energy and health care to join the opportunity set.

AI Investment enters a more selective phase

Entering the fourth quarter of 2026, the AI capital cycle has evolved from a story about expenditure intentions to one about market absorption and eventual returns on that investment. Major analysts currently project that massive cloud computing and data management providers (known as “hyperscalers”) will collectively spend roughly \$1.1 trillion to \$1.3 trillion annually on AI by 2027, a forecasted doubling of year-over-year spending in 2026 compared to 2025. Capex guidance from individual hyperscalers adds up to this enormous aggregate estimate: Amazon (about \$220 billion), Google parent company Alphabet (\$195 billion to \$205 billion), Microsoft (approximately \$175 billion) and Oracle (around \$95 billion for its fiscal 2027). (Data source: Factset)

This scale of investment is no longer confined to the technology sector. It is now a cross-asset class phenomenon touching public equities, investment grade credit, real assets and structured finance, among others. As a result, dispersion of investment performance has widened in kind. Within equity markets, the PHLX Semiconductor

Sector (SOX) Index has thrived with a roughly +70% return year to date, while software has fallen sharply, down approximately 20%, marking one of the widest disparities in subsector returns in decades. Through this volatility and dispersion, we see increasing opportunity for fundamental stock selection.

Why AI return on investment: (ROI) is critical to separating resilient from at-risk franchises

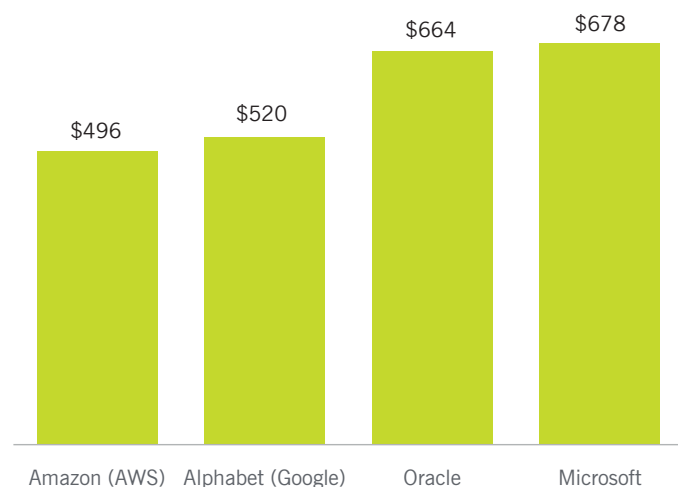
Distinguishing among hyperscalers remains essential, but the focus has sharpened. Rather than seeing all hyperscalers as a monolithic bloc facing existential obsolescence risk, we believe investors are better served by differentiating between them based on the durability of each individual franchise. Those with a broader range of offerings, such as search, streaming media, consumer retail and cloud services, should be better positioned over the long term. In contrast, those whose legacy applications are vulnerable to AI disruption or frontier-model competitive pressure carry more pronounced risk from technological change.

The return on investment (ROI) debate itself has started to move on from a simple framing of negativity to a more complicated and nuanced discussion. Collective hyperscaler free cash flow is projected to tumble by roughly 90% in 2026, a pace of decline that on its face looks alarming. (Data source: Factset) But remaining performance obligations such as contracted revenues not yet recognized have jumped past \$2 trillion, offering a

“In our view, this [rising GPU/server] depreciation dynamic deserves closer scrutiny than it has received from investors to date, as it directly affects the durability of hyperscaler margin structures over the medium term.”

Figure 1: Hyperscaler backlog may signal strong future revenue visibility

*Reported performance obligations (RPO)/
Backlog (\$ Billions)*



Source: Company 10Q filings. Amazon, Alphabet and Microsoft as of 30 Jun 2026. Oracle as of 31 Aug 2026.

stronger line of sight to future monetization. Moreover, the quality of this backlog is seen across individual companies (Figure 1). At the same time, however, a growing share of capex (about 70% in 2026) is going toward graphic processing units (GPUs) and servers with short useful lives, a trend that could pressure hyperscalers' return on equity, which we expect will show a decline from its peak in the second quarter of 2026 as depreciation charges increase steadily into the end of the decade. In our view, this depreciation dynamic deserves closer scrutiny than it has received from investors to date, as it directly affects the durability of hyperscaler margin structures over the medium term.

Shifting from hyperscalers to enterprises, the ROI conversation is increasingly a jobs-and-margins discussion, though perhaps more involved than simply measuring productivity. Some of the earliest quantifiable ROI from AI is coming through headcount reduction. We would caution, however, against reading every layoff announcement as proof of AI-driven productivity. A substantial share of these actions likely reflects "air cover" for pre-existing organizational inefficiency. New data supports this thesis: AI-exposed occupational roles are experiencing relatively lower real wage growth, even as high-skill service and finance sectors report realized productivity gains higher than those for their manufacturing and construction counterparts.

Greater use of agentic AI may prove to be a major catalyst, with agents expected to handle an increasing volume of rudimentary reasoning tasks, but actual adoption remains at an early stage. Only about 15% of U.S. employees use AI daily in their work, according to an early 2026 Gallup survey. Meanwhile, greater than 90% of enterprise generative AI pilots have yet to deliver a measurable profit-and-loss impact. We believe the gap between agentic AI's theoretical scale and its currently limited enterprise impact is one of the key dynamics to track heading into 2027.

Planning for dispersion, not consensus

The degree of dispersion across the AI value chain has become a defining feature of the current cycle, and we expect this to persist into year-end and beyond. We recognize the continued AI concentration within growth equity benchmarks. About 40% of the Russell 1000 Growth Index, for example, is now made up of data center and hyperscaler stocks, most of which continue to report strong profitability and growth. Yet even within this cohort, market behavior reflects genuine uncertainty about long-term earnings multiples and monetization paths. This uncertainty is echoed in credit markets, where issuers are pricing wider spreads and higher yields until returns on data center and hyperscaler capital are more clearly proven.

The shift from narrow market leadership by AI semiconductor names toward broader participation of other sectors is already underway. Financials, particularly large banks with accelerating dividend growth and earnings momentum, have contributed meaningfully to recent market strength, as have "picks and shovels" companies tied to the AI infrastructure buildout and supported by strong balance sheets. Small- and mid cap equities have exhibited similar breadth, led by energy and technology, with improving balance sheets and emerging AI use cases bolstering valuations that appear reasonable relative to history. We remain selective, however: smaller companies can be more sensitive to rates, refinancing conditions and economic growth, making fundamental balance-sheet quality especially important. We therefore view small- and mid-caps as an expanding stock-selection opportunity rather than making a broad call on the asset class.

Regulated utilities and power generation companies can serve as a solid complement to AI-exposed equities, in our view, although the risk narrative has shifted from overwhelming demand growth to regulatory delay. Electricity demand is expected to triple by 2030, according

to Evercore ISI, with data centers accounting for some 10% of consumption. To keep pace, utilities have committed more than \$1 trillion to meet 70+ gigawatts (GW) of large-load demand, with an additional 250 to 300 GW more in the pipeline. Earnings growth for utilities that serve data centers has roughly doubled, but regulators are increasingly scrutinizing whether large-load customers are bearing the associated infrastructure costs or if residential ratepayers are shouldering a disproportionate share. Pipelines and utilities are still direct beneficiaries of this demand story, but earnings durability now depends on successfully navigating cost-allocation and permitting challenges.

AI headlines can drive volatility, but capital commitments matter more

Recent warnings from leaders of several frontier AI developers about potential AI risks triggered a sharp, polarized market reaction in September, briefly pressuring AI-linked stocks while benefiting some software and cybersecurity names.

For equity investors, we believe the more important distinction is between headline-driven volatility and the underlying capital cycle. The case for more sophisticated AI safety infrastructure may attract continued investment, but we see little evidence that the debate is leading to an imminent pullback in AI spending. Demand signals for processing power, networking and storage remain resilient even as the public discussion around AI safety has intensified.

The practical implication is that near-term volatility around frontier AI headlines should be weighed against the steadier, less headline-sensitive signals coming from actual capital commitments and eventual ROI. This reinforces our broader view that dispersion, rather than a simple risk-on or risk-off AI call, is likely to remain a defining characteristic of the cycle.

Europe: broadening leadership meets a regulatory tailwind for banks

Although some European equity markets and market segments were relative laggards earlier in 2026, weighed down by geopolitical hostilities, we now believe corporate profits are positioned to rebound. Second-quarter results support that view: Europe's blended earnings growth

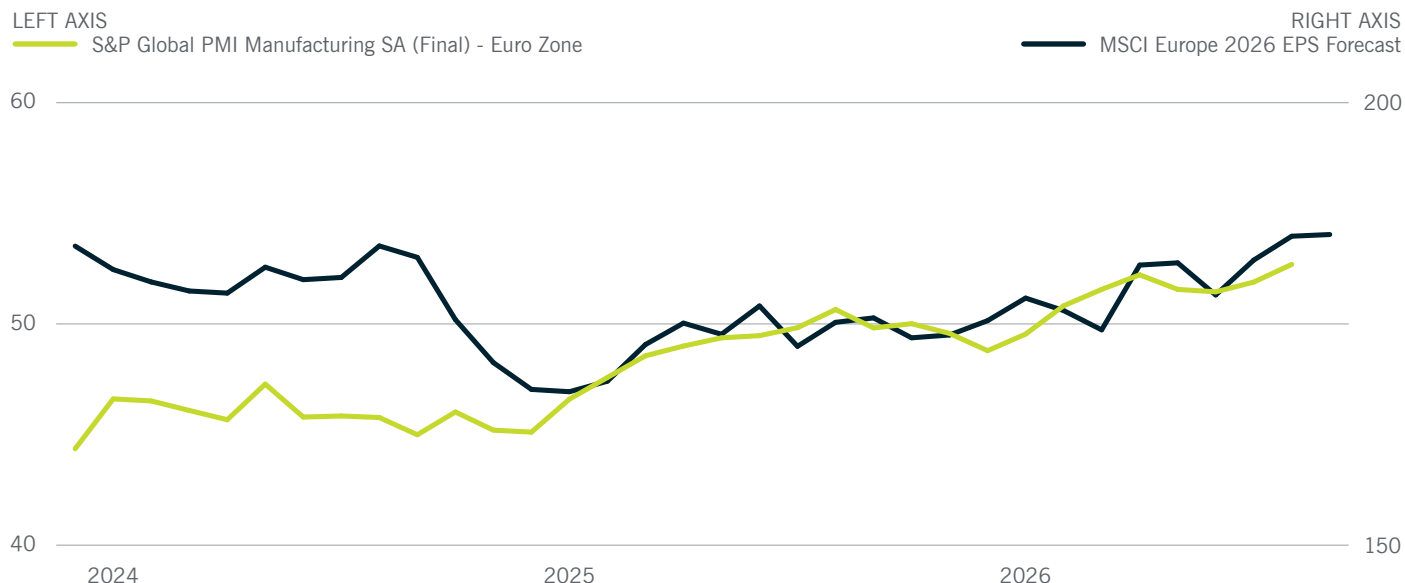
“Near-term volatility around frontier AI headlines should be weighed against the steadier, less headline-sensitive signals coming from actual capital commitments and eventual ROI.”

rate exceeded 21% through early September, the region's strongest showing in years. Furthermore, we expect value, small caps and cyclicals to participate in future market rallies, provided the Middle East conflict doesn't escalate heading into year-end. Encouragingly, eurozone Purchasing Managers Indexes (PMIs) have improved for three consecutive months and remain above the 50 threshold separating expansion from contraction, as earnings revisions have trended higher. (Figure 2)

The United Kingdom, in our view, continues to stand out in valuation terms, trading at a meaningful discount to other markets in Europe and beyond while offering the highest dividend yield globally. UK stocks also remain comparatively insulated from both AI disruption risk and any unwinding of AI-related trades, and its lower sensitivity to global trade makes it a reasonably good place to hide during risk-off episodes.

We believe European financials, and banks in particular, represent a compelling sector opportunity. Banks stand to benefit from the potential acceleration in economic activity over the next 12 months, including a pickup in credit growth. Insurance, by comparison, faces a tougher setup given weaker pricing conditions.

Additionally, European banks may find support from regulatory discussions that have so far applied mainly to their U.S. counterparts. The U.S. Federal Reserve's move to modernize capital supervision has already freed up an estimated \$60 billion in capital for globally significant U.S. banks, resources that have flowed quickly into capital markets businesses. Equity revenues for U.S. banks surged

Figure 2: Improving Eurozone manufacturing activity and earnings expectations


Source: FactSet as of 01 Sep 2026. Performance data shown represents past performance and does not predict or guarantee future results.

roughly 68% in the second quarter, far outpacing the 37% growth for European banks over the same period. This gap in banks' revenue growth favoring the U.S. is attributable in part to this head start on deregulation.

Europe has historically been much more reluctant than the U.S. to embrace the deregulation label, given lingering scars from the 2007 – 2009 global financial crisis. But that stance appears to be shifting. The European Commission's late-July report on improving banking competitiveness marks a notable change in tone, even if its near-term focus remains on simplifying and reducing overlapping capital rules rather than lowering capital requirements outright. The UK, for its part, has already moved a step further, trimming system-wide Tier 1 capital requirements modestly late last year, and we anticipate the UK will keep following the lead from across the pond over time. This direction is constructive for bank profitability and capital returns, even if the UK's pace of change materially lags the U.S. example in the near term.

Among other sectors, industrials continue to benefit from ongoing capital expenditure (capex) and electrification trends, a theme reinforced by a broader recovery in global non-tech capex, which is projected to grow +16% in 2026, with impressive strength in mining, power grids, machinery and aerospace. (Data source: Factset) Defensive sectors such as consumer staples, real estate, telecommunications and health care look less compelling

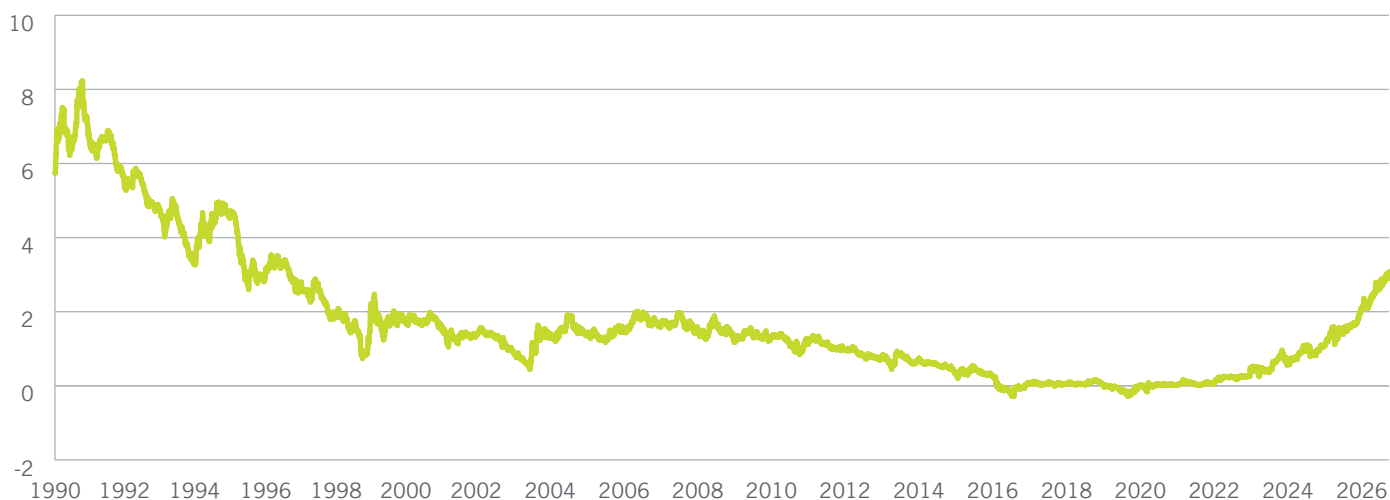
to us at this stage, although utilities are an intriguing exception, supported by attractive fundamentals for renewable energy.

Japan: rate normalization tests a resilient earnings story

Japanese equities enter the fourth quarter navigating a more complicated macro backdrop, as the Bank of Japan (BoJ) accelerates its shift away from ultra-accommodative policy. This has helped drive yields on 10-year Japanese government bonds (JGBs) above 3% (Figure 3), their highest level since 1996.

And following the BoJ's rate hike in September, further increases are likely next year, creating a plausible trajectory to a 2% policy rate by the end of 2027. We see a genuine tension reflected in the BoJ's gradualist approach: On one hand, persistent service-sector inflation, running near levels last seen ahead of the 1980s Japanese asset bubble, argues for faster tightening. On the other hand, about 70% of the domestic economy remains anchored in small and medium-sized enterprises that are vulnerable to higher borrowing costs.

Despite the BoJ's shift, we don't believe rising rates alone are likely to derail the Japanese equity rally. Corporate

Figure 3: 10-year Japanese government bond yields reach their highest level since 1996*JGB 10-year yield (%)*

Source: Bloomberg as of 24 Sep 2026. Performance data shown represents past performance and does not predict or guarantee future results.

earnings remain the more critical driver, in our view, and they continue to hold up well. Consensus estimates as of late September point to fiscal 2026 earnings per share (EPS) growth of +20%, moderating to a still-healthy +11% in fiscal 2027, with favorable impacts from a weaker yen, continued strength in technology-related capex and improving consumer spending. (Data source: Factset) Corporate operating profits across large, mid-sized and small enterprises have climbed steadily for over two decades and remain near historical highs, a trend that should provide a substantial cushion against a less accommodative rate environment. A sudden repricing of rate expectations could trigger near-term volatility, but as long as the earnings trajectory holds, we doubt a sustained correction is in the cards.

The earnings story is also reinforced by changes in corporate behavior. Improving governance, greater capital discipline and a stronger emphasis on shareholder returns — including record buyback activity — are helping companies make more productive use of balance sheets and creating an additional potential source of equity returns. These developments, in our view, strengthen the structural case for Japanese equities beyond the near-term macro cycle.

On balance, the case for Japanese equities should still hold heading into year-end. Resilient earnings and improving shareholder returns provide important offsets to the drag from a less accommodative rate environment, although

continued selectivity will be important as higher rates create a more demanding backdrop for weaker businesses.

Emerging markets (EM): from a single AI chapter to a broadening story

The dominant EM narrative of the first half of 2026, defined almost entirely by AI hardware exposure, may be in the midst of a plot twist, potentially leading to a broader storyline. Technology was the top-performing sector in both the first and second quarters, but the tale of the tape was rewritten in the third: as of mid-September, tech was on track to be the quarter's worst-performing sector. (Data source: Morningstar Direct) In contrast, materials, energy, health care, financials and consumer discretionary posted double-digit-percentage gains. If this rotation sticks, it will mark a major shift in market leadership approaching 2027, with investors moving on from the initial AI infrastructure build-out phase toward second-order AI beneficiaries and sectors with more reasonable valuations, such as industrials, robotics and electrification.

Country-level dispersion tells a similar story. South Korea, the stellar standout through the first half of the year, suffered a reversal of fortune in the third quarter, becoming the EM cellar dweller. By late September, the memory cycle correction had lopped roughly 35 percentage points off the top of the Korean peak. Taiwan also began to lag amid the dissipation of AI hardware concentration.

Notably, active EM funds substantially reduced their exposure to South Korea and Taiwan in favor of mainland China, whose active weighting in the MSCI Emerging Markets Index reached its highest level since 2013. This rotation was driven by China's domestic AI ecosystem. We think this flipped script underscores how narrow and potentially fragile AI hardware leadership has become, and how much room remains for further market broadening if the trend continues.

Several smaller EM countries, including Colombia, Poland, Greece, Indonesia and the Czech Republic, outperformed for much of the third quarter, aided by generally firm commodity prices. More broadly, the rising costs of Brent crude oil, copper and gold will likely continue to benefit exporters across the EM map in Latin America, Eastern Europe, the Middle East and Africa.

While the AI earnings story isn't coming to an end, the reality of its heavy concentration is becoming harder to ignore. Excluding two dominant Korean memory chipmakers, EM earnings growth remains healthy at roughly 20%, versus an estimate closer to 50% if those two names were included. That gap illustrates just how much of EM's strength relies on a small subset of companies. Markets appear to be readying for the next chapter of the AI cycle, one in which breadth of application and monetization discipline, more so than simple benchmark exposure to hardware, are becoming the main characters. That is consistent with the broader global pattern we see across equity markets: structural AI investment remains powerful, but the opportunity set around it is becoming wider and more dispersed.

“We think [the reversal between China and Taiwan] underscores how narrow and potentially fragile AI hardware leadership has become, and how much room remains for further market broadening if the trend continues.”

Looking ahead, a number of political catalysts could also shape EM performance into 2027. These include the U.S. midterm elections, the aftermath of the September summit between Donald Trump and Xi Jinping, and a presidential vote in Brazil that could put the country on a different track than the one laid out for it by the current administration. Such a move could unlock meaningful upside for Brazilian and broader Latin American equities. On the topic of oil, it appears markets have largely priced in a higher-for-longer trajectory, with previously sensitive markets such as India reacting less forcefully to incremental developments in the U.S.-Iran war. We think this reduced sensitivity, if sustained, would be a constructive signal for EM stability through year-end.

For more information, please visit nuveen.com.

Endnotes

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Nuveen portfolios may or may not be invested in the securities referenced in this commentary; however, no particular endorsement of any company, product or service is being made. We are not recommending these securities, but only referencing it as a case study/example.

Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes

affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Non-U.S. investments involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE
--

nuveen

A TIAA Company